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Italy in the World Crisis

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THE ECONOMIC SITUATION IN ITALY

ITALY IN THE WORLD CRISIS

by

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with the aid of the Research Staff of the Foreign Policy Association

INTRODUCTION

WHILE the corporative system,¹ outwardly at least, has eliminated conflicts between capital, labor and consumers, it has not safeguarded Italy from the economic difficulties which have assailed less regimented countries during the world crisis. These difficulties, it is true, have been to some extent minimized by the fact that almost 90 per cent of Italy's industry, in contrast to that of Great Britain and Germany, consists of small-scale establishments; that half of its population is engaged in agriculture, which offers at least minimum subsistence in times of depression; and that Italy, unlike the majority of European countries, is not burdened with foreign debts.

The Fascist government has endeavored to fortify Italy against the shocks of the depression by decreasing its dependence on imports of such indispensable products as wheat and coal, and by encouraging the expansion and rationalization of export industries. The increase in domestic production of wheat has not kept pace with the growth of the population and the parallel rise in wheat consumption. Curtailment of imports, however, has served to alleviate the hardships caused by the decline in exports, emi-

grants' remittances and tourist expenditures which has characterized the depression years. At the same time, the gains achieved in industry and agriculture during the first years of the Fascist régime have been offset since 1927 by the unfavorable effects of revaluation of the lira at a point generally regarded as too high for the potentialities of Italian economy. This revaluation precipitated a crisis in Italy which antedated the world depression, and was merely aggravated by it. The two crises—local and international—have in combination caused sharp reductions in wages and salaries without a corresponding decline in the cost of living; have increased unemployment, which has been only partially relieved by unemployment insurance and public works; and have steadily raised the burden of taxation to a point at which taxes absorb more than a quarter of the average income. Nor does the continued growth of the population, which is officially fostered by the government and no longer finds an outlet in overseas emigration, promise material improvement of Italy's economic situation.

THE POSITION OF THE LIRA

By the law of December 21, 1927 the lira was stabilized at 27.27 per cent of its former value, as compared with the French franc, stabilized in 1928 at 20 per cent of its former

1. For a discussion of the corporative system, cf. Vera M. Dean, "The Economic Situation in Italy: The Corporative System," *Foreign Policy Reports*, January 16, 1935.

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value. The new parity of the lira was fixed at 7.919 grams of fine gold for every 100 lire, or 19 lire to the United States dollar. Revaluation of the lira at this point was determined, according to foreign observers, not by economic considerations but by the desire to bolster Italy's prestige.² Fascist spokesmen, however, contend that revaluation at a high point was calculated to benefit Italy, which must import certain essential raw materials, yet has a steadily unfavorable balance of trade.

The law of 1927 required the Bank of Italy to maintain a reserve in gold or foreign bills not less than 40 per cent of the face value of the notes in circulation and other outstanding obligations. For two years the Bank succeeded in maintaining a gold reserve considerably higher than the legal minimum. Beginning with 1929, however, the position of the lira was severely strained by the decline in exports, emigrants' remittances, and revenue from shipping and tourist traffic. Despite these unfavorable developments, the Bank's gold coverage still stood at 53.4 per cent in August 1931. Great Britain's abandonment of the gold standard in September of that year and the resulting monetary disturbances had serious repercussions in Italy, which began to experience the difficulties familiar to gold bloc countries.³ Wholesale prices declined more sharply in Italy than in any other of the countries in the gold bloc except Belgium; and the cost of living, while lower than that of France, failed to decrease as rapidly as in Czechoslovakia and Poland.⁴ The excess of imports over exports remained relatively modest, but invisible exports declined still further. Moreover, while the majority of Italian importers paid promptly for purchases abroad, exporters found it increasingly difficult to secure payment from customers in countries which had adopted clearing agreements or established currency control systems. By March 1933 the gold coverage of the Bank of Italy had declined to 48.5 per cent. With the abandonment of the gold standard by the United States in April 1933 the lira encountered fresh difficulties. The outflow of gold from the Bank of Italy, which assumed alarming proportions in January 1934, steadily continued, and by December the Bank's gold coverage had been reduced to 41.2 per cent.⁵

The Fascist government, which is determined to maintain Italy on the gold standard, has so far succeeded in keeping gold reserves within the legal minimum only by a steady policy of deflation, which contrasts with the inflationary policy followed by Great Britain and the United States. Currency circulation, which stood at 20 billion lire in 1926, had been cut to 13 billion by 1934, and may be further reduced this year to 11 billion.⁶ Wholesale prices were still declining in 1934. The official discount rate, lowered from 7 per cent in 1931 to 3 per cent in 1933, was raised to 4½ per cent in 1934; the salaries of government employees were cut, and measures were taken to reduce retail prices. The government also adopted a series of drastic measures to increase gold reserves. On December 8, 1934 all Italian banks, bankers and companies having their seats in Italy or its colonial possessions were ordered to cede their foreign credits within ten days to the National Exchange Institute at the current rate of exchange, and all Italian citizens were ordered to declare to the Bank of Italy any credits they have outside of Italy and any foreign or Italian securities they possess, even if these are deposited abroad.⁷ On December 19 the government further tightened its grip on foreign exchange dealings by prohibiting exports for any reason and in any form of bank bills, drafts, checks or bonds drawn in lire and payable in Italy or its colonial possessions, and stipulating that persons who leave the country may not carry sums exceeding 2,000 lire.⁸

DECLINE IN FOREIGN TRADE

While these measures are expected to place several billions in dollar, pound and franc credits at the disposal of the Bank of Italy and thus postpone devaluation of the lira, they do not remedy the main cause of the gold outflow, which is Italy's inability to pay for essential imports with increased exports. Italy has always had an unfavorable balance of trade, although since 1931 it has succeeded in greatly narrowing the gap between exports and imports. The decline in exports during the world crisis, aggravated by the high prices of Italian goods as compared with those of countries which have abandoned the gold standard, has been accompanied by curtailment of emigrants' remittances and revenue from shipping and a marked increase in the export of gold, as shown in the following table:

2. François Perroux, *Contribution à l'Etude de l'Economie et des Finances de l'Italie depuis la Guerre* (Paris, Giard, 1929), p. 295; Michel Mitzakis, *Les Grands Problèmes Italiens* (Paris, Alcan, 1931), p. 432.

3. The European gold bloc now includes France, Belgium, Italy, the Netherlands, Poland and Switzerland. Czechoslovakia was in the gold bloc until 1934, when it devaluated the Czech crown.

4. League of Nations, *World Economic Survey, 1933-1934* (Geneva), September 1934, p. 32.

5. *New York Herald Tribune*, December 9, 1934.

6. *The Economist* (London), December 15, 1934, p. 1147.

7. For the text of this decree, cf. *Corriere della Sera*, December 9, 1934.

8. *Ibid.*, December 20, 1934.

ITALY'S INTERNATIONAL BALANCE OF PAYMENTS⁹
(in millions of lire)

	1929		1930		1931		1932		1933	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
Commodities	15,236	21,665	12,119	17,346	10,209	11,643	6,811	8,257	5,939	7,392
War Debts, Interest, Dividends and Commissions		1,050		1,000		900		500		
Freight and Shipping	1,690	555	1,475	480	700	net	500	net		
Tourist Expenditures	2,418	316	2,200	270	1,380	195	1,000	170	1,302	
Emigrant Remittances	2,350	230	2,020	200	1,570	net	910	net		
Reparations in Money	231		525		275		none		none	
Gov't International a/c	200		180		200		150			
Other Items	220		220							
Gold	10	242	8	107	17	361	15	90	75	1,338
Totals	22,355	24,058	18,747	19,403	14,351	13,099	9,386	9,017		
Net Balance		-1,703		-656		+1,252		+409		

The government has attempted to cut down the foreign trade deficit by reducing imports and by negotiating barter agreements with neighboring countries. The reduction in imports has primarily affected foodstuffs and manufactured goods. Between 1929 and 1933 imports of foodstuffs

declined by 44.5 per cent and those of manufactured goods by 32 per cent, while the demand for raw materials remained relatively unchanged, imports declining only by 8 per cent.^{9a} The trend in imports of essential raw materials from 1929 to 1933 is shown in the following table:

RAW MATERIAL IMPORTS, 1929-1933¹⁰
(in thousands of quintals)

	1929	1930	1931	1932	1933
Vegetable fibres	747.0	649.6	560.5	503.3	622.6
Raw silk	4.7	3.9	4.3	3.8	2.8
Cast iron	1,776.7	1,566.8	841.6	478.9	514.1
Coal and coke*	14,602.8	12,936.8	11,093.9	8,778.1	9,561.8
Rubber	250.3	274.2	171.1	207.8	257.6
Raw cotton	2,444.8	2,047.4	1,704.7	1,902.0	2,197.8
Raw wool	647.0	603.3	539.3	772.8	918.2

*In thousands of tons.

While imports of coal, rubber, cotton and oil¹¹ rose in 1934, imports of raw wool, which had remained fairly stable throughout the depression, showed a decrease during the past year.¹²

In order to stimulate exports, the Fascist government has adopted the policy of purchasing raw materials from countries which offer an outlet for Italian goods. By a decree of April 14, 1934 the government undertook to regulate the importation of oil-seeds, copper, wool and coffee, which are now subject to import licenses. In granting licenses for these products the government will take into consideration the ratio of exchange between the exporting countries and Italy. Technical committees, composed of government officials and representatives of importing interests appointed by the Ministry of Corporations in consultation with syndical

organizations, will advise the government on import licenses.

The barter principle has been embodied in the Italo-Turkish trade agreement of April 4, 1934,¹³ the Franco-Italian commercial accord of April 1934, and the economic agreements which Italy concluded with Austria and Hungary on May 14, 1934. In the latter agreements, subject to the most-favored-nation clause, Austria granted Italy special customs facilities for a number of typically Italian products, and received similar concessions on many of its industrial exports; and Hungary agreed to facilitate imports from Italy in return for an arrangement by which an Italian company, *Safni*, was to purchase a million quintals of wheat from a Hungarian organization designated by the Budapest government.¹⁴ Austria and Hungary also agreed to develop their transit trade through the Italian ports of Trieste and Fiume respectively. The Fascist government declares that it does not favor autarchy, but must resort

9. This table was compiled by Professor Gino Borgatta, "Bilancio dei Pagamenti—Cambio," *Trattato Elementare di Statistica* (Milan, Giuffrè, 1933), Vol. IV and V.

9a. "Relazione Economico-Finanziaria, Anno 1933," *Rivista Bancaria* (Milan), Supplement, November 1934, p. 803.

10. Istituto Centrale di Statistica del Regno d'Italia, *Annuario Statistico Italiano, 1934*, Quarta Serie, Vol. I (Rome, Istituto Poligrafico dello Stato, 1934), p. 103.

11. Oil imports did not decline during the depression. Cf. p. 313.

12. *The Economist* (London), November 17, 1934, p. 923. Imports of raw cotton also showed a tendency to decline in 1934.

13. *Corriere della Sera*, April 7, 1934.

14. The General Fascist Confederation of Italian Industries, *Business and Financial Report: A Monthly Survey of Italian Trade and Industry*, May 1, 1934; *Corriere della Sera*, May 15, 1934.

to barter arrangements as long as the normal channels of foreign trade are blocked by quotas, tariffs and currency controls.

Italy's agreements with Austria and Hungary, however, were political rather than economic in character, being designed primarily to create an Italo-Austro-Hungarian bloc directed, on the one hand, against the

Little Entente and, on the other, against Germany. The following table shows that the countries which figure most prominently in Italy's foreign trade are not those of Eastern and Southeastern Europe, but the principal Western powers—Germany, Great Britain and France—and overseas countries, notably the United States and Argentina.

ITALY'S FOREIGN TRADE BY PRINCIPAL COUNTRIES¹⁵

Country	Imports				Exports			
	1931		1932		1931		1932	
	Millions of Lire	Per Cent	Millions of Lire	Per Cent	Millions of Lire	Per Cent	Millions of Lire	Per Cent
Austria	290.9	2.5	185.8	2.3	314.5	3.1	190.2	2.8
Belgium	237.3	2.0	201.9	2.4	155.7	1.5	124.9	1.8
Bulgaria	38.2	0.3	54.2	0.7	61.6	0.6	50.4	0.7
Czechoslovakia	182.5	1.6	119.7	1.5	128.7	1.3	97.5	1.4
Denmark	58.4	0.5	21.5	0.3	58.9	0.6	33.1	0.5
France	824.9	7.1	481.9	5.8	1,118.5	11.0	517.2	7.6
Germany	1,533.7	13.2	1,110.4	13.4	1,090.2	10.7	777.7	11.4
Great Britain	1,098.7	9.4	743.3	9.0	1,200.8	11.8	736.1	10.8
Greece	74.1	0.6	109.9	1.3	128.2	1.3	100.0	1.5
Yugoslavia	409.8	3.5	241.9	2.9	168.8	1.6	110.7	1.6
Poland	108.8	0.9	83.6	1.0	97.4	0.9	71.1	1.1
Rumania	331.0	2.8	229.2	2.8	119.7	1.2	123.6	1.8
Switzerland	400.5	3.4	310.0	3.8	771.3	7.5	578.3	8.5
Turkey	64.0	0.6	52.9	0.6	241.4	2.4	121.9	1.8
Hungary	144.9	1.3	78.3	0.9	87.4	0.9	48.7	0.7
U.S.S.R.	561.2	4.8	307.5	3.7	287.2	2.8	230.3	3.4
Argentina	563.9	4.8	482.5	5.8	829.0	8.1	381.1	5.6
Brazil	230.8	2.0	157.1	1.9	100.6	1.0	78.5	1.2
Chile	122.8	1.1	58.7	0.7	38.8	0.4	14.3	0.2
United States	1,327.0	11.4	1,108.2	13.4	1,046.3	10.2	638.8	9.4

FASCIST FINANCES

According to Italian experts the lira is threatened not so much by external factors—Italy has no large amount of foreign debts, and the flight of capital has been negligible—

as by further increase of the budget deficit.¹⁶ The Italian budget, like that of other countries during the depression, has been thrown out of balance by declining revenues and mounting expenditures, as shown by the following table:

REVENUE AND EXPENDITURES, 1929-1934¹⁷
(in millions of lire)

	1929-1930	1930-1931	1931-1932	1932-1933	1933-1934
Revenue	19,838	20,387	19,324	18,217	17,790
Expenditures	19,668	20,891	23,191	21,766	24,609
Deficit or Surplus	+170	-504	-3,867	-3,549	-6,819

The deficit for 1934-1935 is now estimated at somewhat less than two and a half billion lire.

Revenues, which had not been materially affected by revaluation of the lira, declined to a marked extent after 1931, especially with respect to direct and consumption taxes. Nor has increased taxation, which rose from 20 per cent of the average income in 1926 to 29 per cent in 1933, remedied the situation. The Fascist government has made no attempt to use taxation as a weapon for achieving redistribution of wealth. Its taxation policy has been guided by two main principles: to raise the largest possible rev-

enue, and at the same time safeguard family patrimony and accumulation of private capital—family and private property being considered the foundation stones of the totalitarian state. The Fascists have reduced taxes on real estate, abolished inheritance taxes for close relatives, imposed a tax on bachelors, and introduced a sales tax which applies to all transactions except those involving fuel and foodstuffs.^{17a} Italian experts believe that in a period of rapidly contracting private incomes, additional taxes not only fail to achieve their purpose but aggravate

17. Istituto Centrale di Statistica del Regno d'Italia, *Bollettino Mensile di Statistica*, October 1934, p. 917.

17a. Waldemar Koch, "Wirtschaftsentwicklung und Steuerpolitik im faschistischen Italien," *Finanzarchiv* (Tübingen), Neue Folge, Band 2, Heft 3, 1934, p. 447; Perroux, *Contribution à l'Etude de l'Economie et des Finances de l'Italie depuis la Guerre*, cited.

15. *Annuario Statistico Italiano*, 1934, cited, p. 121. These are the latest complete figures available.

16. Giorgio Mortara, *Prospettive Economiche*, 1933 (Città di Castello, "Leonardo da Vinci," 1933), p. 591 et seq.

the situation, as tax-burdened enterprises find it necessary to seek state assistance. The government, in their opinion, must reduce the budget deficit not by increasing taxes still further but by curtailing expenditures.¹⁸

The increase in expenditures has been due to three main factors: revaluation of the lira, which caused a marked increase in interest charges on the public debt between 1926 and 1929; the economic crisis, which has necessitated expenditures on public works and financial assistance to industry; and the rise in military expenditures. The internal public debt which, as a result of war expenditures, had reached its maximum post-war point in 1923 when it totaled 95,544,000,000 lire, was slightly reduced between 1926 and 1930, but then steadily increased, as shown in the following table:

INTERNAL PUBLIC DEBT ¹⁹ (in millions of lire)					
	1930	1931	1932	1933	1934 ²⁰
Consolidated	71,410	71,368	71,735	71,289	9,892
Redeemable	13,021	14,582	17,190	17,014	82,105
Floating	3,671	5,492	6,647	8,912	10,625
Total	88,102	91,442	95,572	97,215	102,622

The change in the composition of the internal debt revealed by the 1934 figures is due to the conversion during the past year of about 61 billion lire of 5 per cent consolidated war loans into 3½ per cent redeemable obligations. A new bond issue of 2 billion lire in 9-year 4 per cent Treasury bonds floated on November 21, 1934 was promptly oversubscribed, showing both that the public has confidence in government bonds and that considerable savings are available for investment. Critics of Fascism, however, contend that the government is attempting to direct private savings from the channels of private into those of government investment, to the detriment of Italian industry.

To the internal debt should be added other items, such as the amount due by the state to the Bank of Italy for gold deposited abroad; the liabilities of independent government administrations such as posts, telegraphs, telephones, state monopolies and others; borrowings other than those appearing in the floating debt; and additional items which, according to some estimates, would bring up the grand total of Italy's internal debt in 1934 to 170 billion lire.²¹ Italy's only external public debt—apart from its war debts to the United States and Great Britain, on which no payments have been made since 1933, owing to suspension of reparation payments by Germany—is the so-called Morgan

loan of 100 million dollars obtained in the United States in 1926 for the specific purpose of stabilizing the lira. It has been reported that, in the course of recent political and economic negotiations with France, Italy had demanded a loan sufficient to strengthen its financial situation and protect the gold reserves of the Bank of Italy. These reports, however, are denied by Italian authorities.²² Should the government fail to obtain foreign loans and refuse to devalue the lira, it will be obliged to continue its policy of deflation, forcing a further decline in wholesale prices, and reduce imports to the minimum, throwing the country even more than in the past on its own limited agricultural and industrial resources.

AGRICULTURE UNDER FASCISM

The Fascist government has encouraged and assisted agrarian production, with three aims in view: to decrease Italy's dependence on imported foodstuffs; to develop a rural culture, regarded as more in harmony with the Fascist concepts of home and nation than the urban mode of life; and to assist industry by enlarging the domestic market for manufactured goods and reducing the cost of industrial production.²³ To achieve these ends, the government has sought to increase both the total area suitable for cultivation and the yield per hectare by three principal measures: inter-provincial competitions in wheat-growing, known as the battle of wheat (*battaglia del grano*); a program of land reclamation (*bonifica integrale*); and promotion of reforestation and forest protection. In addition, it has reorganized agricultural credit, and has encouraged modern agricultural methods and the use of improved fertilizers and modern machinery.

The Battle of Wheat

The battle of wheat, which has become an annual feature of Italian rural life and is accompanied by active Fascist propaganda, including visits by Mussolini and other officials to the successful provinces and distribution of cash prizes, has increased Italy's production of foodstuffs. In 1934 the area under wheat was somewhat superior to the pre-war average. It is not at all certain, however, that the total area under cultivation can be increased to any marked extent. It is estimated that only 60 per cent of Italy's mountainous soil can be cultivated, and 44 per cent was already under cultivation in 1927.

The average wheat harvest since 1926, when the battle of wheat was inaugurated, has been nearly 10 million quintals above

18. Mortara, *Prospettive Economiche*, 1933, cited, p. 601 et seq.

19. *Annuario Statistico Italiano*, 1934, cited, p. 187.

20. *Bollettino Mensile di Statistica*, cited, October 1934.

21. *New York Herald Tribune*, September 24, 1934.

22. Mario Mazzuchelli, "Considerazioni sul Conto d'I Tesoro e sul Bilancio," *Rivista Bancaria*, October 15, 1934, p. 667.

23. Mitzakis, *Les Grands Problèmes Italiens*, cited, p. 38.

that of pre-war years, and total wheat production has on the average materially increased, as seen from the following table:

WHEAT PRODUCTION²⁴
(in quintals)

1921-1925	53,904,000
1925	63,000,000
1926	55,000,000
1927	53,300,000
1928	62,200,000
1929	70,800,000
1930	57,200,000
1931	66,600,000
1932	75,300,000*
1933	81,000,000†
1934	63,800,000**

**Annuario Statistico Italiano*, 1934, cited, p. 41.

†*Ibid.*

**Speech of Mussolini to the Permanent Grain Committee, October 23, 1934, *Corriere della Sera*, October 24, 1934.

This increase, while important, has not sufficed to meet the rising consumption of wheat by a population which has increased from 38,023,000 in 1921 to 42,212,000 in 1934.²⁵ Italy, however, has reduced its imports of wheat from an average of 21 million quintals during the period 1927-1930 to 6 million in 1933.²⁶ Foreign wheat is subject to quotas and prohibitive customs duties, which have served to maintain the price of domestic wheat at a level higher than that of world prices. While the price of imported wheat, free of duty, fell from 156 lire a quintal in 1926 to 49 lire in 1932, that of Italian wheat fell only from 195 to 110 lire a quintal during the same period.²⁷ An added burden was thus imposed on the Italian consumer at a time when wages and salaries had drastically declined.

The battle of wheat has succeeded in raising the average yield per hectare only from 10.5 quintals in 1909-1913 to 12.8 in 1934.²⁸ Eight provinces, however, reached a higher per hectare figure in 1934, ranging from 13.8 for Piedmont to 21.7 for Lombardy. It is doubtful that the per hectare yield can be increased much further, and an average of 14 quintals for all cereals appears to be the maximum which Italian agriculture can achieve, even with government aid.²⁹

Rice, the only cereal exported by Italy, has fared less well than wheat on the domestic market. Despite propaganda for increased consumption, rice has gradually declined in

popularity, and at present Italy's rice production is far in excess of domestic demand, with the result that prices remain low. At the same time the export of rice, subsidized by the government, has suffered from the competition of Asiatic countries with devaluated silver and currencies.

Land Reclamation

Reclamation of land has the double purpose of abolishing malaria and making marshy or otherwise unclaimed and unusable land available for cultivation. It was practiced long before the advent of the Fascist government,³⁰ which has merely enlarged the scope and objectives of reclamation. The Fascist program, embodied in the law of December 24, 1928, has extended reclamation to Tuscany, Maremma, the regions known as Agro Romano and Agro Pontino, and certain sections of Sicily and Sardinia. The government has undertaken to finance this program by a series of annuities totaling 9 billion lire which are to rise progressively from 6 million lire in 1930 to 323 million in 1944, when they are to remain stationary for fifteen fiscal years, gradually declining until 1973. The reclamation program, directed by the Ministry of Land Reclamation, includes irrigation projects, erection of reservoirs in mountain regions, road building, construction of schools and modern farmhouses, and rural electrification. Projects for land reclamation, all of which are subject to government approval, are divided into two categories. Those regarded as urgent and as having public utility are undertaken either by the government or by private organizations receiving financial aid from the state; those of a less urgent character or having primarily private ends are entrusted to private landowners, either individuals or groups, who are accorded limited state subsidies or substantial tax exemptions.³¹ Land reclamation has not yet resulted in land expropriation. While private landowners must submit their projects to the government and accept its supervision for the duration of reclamation, they recover full liberty to dispose of their land once the task is completed. Some Fascists would go further, and urge the government to expropriate, for an indemnity, all landowners who fail to utilize their property to the best advantage, turning their land over to cultivation by more enterprising agriculturists or by the state it-

24. Mortara, *Prospettive Economiche*, 1933, cited, p. 37.

25. *Annuario Statistico Italiano*, 1934, cited, p. 5. The relatively large quantity of wheat consumed in Italy takes the place of more expensive foodstuffs lacking in the country's diet—meat, sugar and milk products.

26. Mortara, *Prospettive Economiche*, 1933, cited.

27. *Ibid.*, p. 51; *Annuario Statistico Italiano*, 1934, cited, p. 129.

28. Speech of Mussolini on October 23, 1934, cited.

29. Mitzakis, *Les Grands Problèmes Italiens*, cited, p. 65.

30. Cf. Gaetano Salvemini, "Land Reclamation and Fascism," *Italy Today*, May-June 1932.

31. Arrigo Serpieri, Undersecretary for Land Reclamation, "Integral Land Reclamation," *What is Fascism and Why?* edited by Tomaso Sillani (New York, Macmillan, 1931), p. 72; Mitzakis, *Les Grands Problèmes Italiens*, cited, p. 59 et seq.; L. Rosenstock-Franck, *L'Economie Corporative Fasciste en Doctrine et en Fait* (Paris, Gamber, 1934), p. 335.

self.³² Of the laborers working on reclamation projects—who totaled 89,277 in 1934—many have been drawn from the ranks of the unemployed. They are housed in government barracks and furnished with food, implements of work and a nominal wage. It is the intention of the Fascist government to settle these workers eventually on the land they have reclaimed, thus simultaneously relieving, if in very slight measure, the strain of unemployment and overpopulation. In 1934 the reclaimed Agro Pontino was transformed into the Pontine province, and its newly built capital, Littoria, was officially inaugurated by Mussolini.

The Fascists in general intend gradually to eliminate seasonal labor in agriculture and to transform agricultural laborers, regarded as an easy prey to agrarian unrest, into independent small farmers with a property stake in land. With this end in view, the government advocates the conclusion of collective agricultural contracts between landowners and laborers providing for produce-sharing instead of cash wages, and for year-round instead of seasonal employment. The produce-sharing principle is attacked by critics of Fascism on the ground that it offers no stable criterion for determining wages, and operates to the disadvantage of agricultural workers.³³ While collective agricultural contracts have slowly increased in number,³⁴ they have not prevented a decline in agricultural wages, which have fallen from 20 to 50 per cent between 1927 and 1933.

INDUSTRY UNDER FASCISM

The Fascist government has encouraged the expansion and rationalization of industry in the hope that reduced costs of industrial production would facilitate Italy's competition on world markets. Following a short interim of adaptation to Fascism after 1922, industry experienced an intensive period of expansion fostered by the government, which repeatedly declared that it would not interfere with private property or initiative, and subsidized many industries, notably silk and beet sugar. The resulting boom, according to many observers, was largely speculative in character and out of proportion both to the capital resources of industry and the absorptive capacities of domestic and foreign markets. Revaluation of the lira in 1927 jolted even the soundest industries, checked industrial growth, and forced many enterprises to sacrifice reserves of capital which might have aided them over the subsequent

period of world depression.³⁵ The lowest point in industrial production was apparently reached in 1932, when the index, with 1928 as base, dropped to 62.7. Since then the index has gradually risen, reaching 95.2 in October 1934.³⁶ Wholesale prices, however, have continued to fall in Italy, as in several other gold bloc countries,³⁷ and in March 1934 the index, with 1929 as base, stood at 53.5³⁸—having declined more sharply than that of any gold bloc country except the Netherlands.

Reorganization of Industry

In January 1933 the government intervened to salvage industry by establishing the Industrial Reconstruction Institute (*Istituto di Ricostruzione Industriale*). This body, which corresponds to the Reconstruction Finance Corporation in the United States, is designed to reorganize industries which had been overcapitalized in the boom period or had otherwise proved unsound. It provides not only for the liquidation of uneconomical concerns by furnishing state aid to their creditors, but finances and improves sound undertakings by issuing long-term loans. Probably the most important task accomplished by the Institute during the first year of its existence was the reorganization of the Piedmont Hydroelectric Company, one of the largest electrical concerns in Italy. The company's capital was reduced from \$67,760,000 to \$27,120,000, the company itself was split into three separate concerns, and the government guaranteed the principal and fixed interest on a bond issue floated to finance one of the three companies. A decree of November 9, 1933, moreover, authorized the government to guarantee bonds issued by private concerns. According to some observers this measure, as applied to the Piedmont Hydroelectric Company, will eventually give the government control not only of industrial management, but also of all sources of industrial investment. Another government organization, *Istituto Mobiliare*, has been charged with the task of aiding the banks to unload their industrial securities and thaw out frozen assets.

In 1933 the government also assumed control over further industrial expansion. All entrepreneurs must apply to a special ministerial committee for licenses to start new industrial plants or enlarge old ones. During the first quarter of 1934 this committee considered 102 applica-

32. Arrigo Serpieri, *Problemi della Terra nell'Economia Corporativa* (Rome, Diritto del Lavoro, 1929); also speech by Serpieri in Chamber of Deputies, December 12, 1934, *Corriere della Sera*, December 13, 1934.

33. Rosenstock-Franck, *L'Economie Corporative Fasciste en Doctrine et en Fait*, cited, p. 152.

34. International Labour Office, *The I. L. O. Year-Book, 1933* (Geneva, 1934), p. 354. Giuseppe Bottai, "Orientamenti Economici nel Contratto Collettivo di Lavoro in Agricoltura," *Il Diritto del Lavoro* (Rome), June-July 1934, p. 273.

35. Mitzakis, *Les Grands Problèmes Italiens*, cited, p. 159 et seq.; Ferroux, *Contribution à l'Etude de l'Economie et des Finances de l'Italie depuis la Guerre*, cited, p. 299 et seq.

36. The Association of Italian Corporations, *Business and Financial Report*, January 1, 1935; League of Nations, *Monthly Bulletin of Statistics*, November 1934, p. 489.

37. Belgium, France, Poland and Switzerland.

38. League of Nations, *World Economic Survey, 1933-1934*, cited, p. 139.

tions, of which it granted 68, rejected 25, and postponed 9 for further consideration.³⁹ The more radical Fascists advocate substitution of state control for private initiative in industry. This tendency is resisted by industrial leaders, who want only a minimum of state intervention. Dr. Alberto Pirelli, president of the National Confederation of Industry, has declared that it is "indispensable that the industrialists, as individuals and as groups, should strain every muscle and exercise their ingenuity in seeking to overcome with their own powers the difficulties of the economic struggle imposed by the world situation."⁴⁰

Italy's Lack of Raw Materials

In this struggle Italian industry has been seriously handicapped by its dependence on imported raw materials and its shortage of capital. Italy lacks the raw materials essential for industrial development. Such coal as it possesses consists of lignite of low heating capacity, in deposits of modest potentialities and expensive to exploit. Practically all the coal used in Italy is imported, chiefly from Great Britain. As a result of the sharp decrease in exports during the depression, Italy was forced to curtail coal imports, which declined from 14,602,800 tons in 1929 to 9,561,800 in 1933.⁴¹ For the first nine months of 1934, however, coal imports showed a 25 per cent increase over the corresponding period of 1933,⁴² indicating a revival of industrial activity. While the price of foreign coal has dropped sharply since 1928, the Italian consumer has not received the full benefit of this reduction, as a duty of 10 per cent of its 1929 value is imposed on coal, and transportation charges have remained practically unchanged. It has been estimated that in Italy's principal industrial centre—Milan—the consumer pays at least double the original price of British coal.⁴³

Italy's oil resources are also inadequate for domestic consumption, although oil production has risen from 5,886 tons in 1929 to 26,526 in 1933.⁴⁴ This increase is due to government encouragement given through the *Azienda Generale Italiana Petroli*, established in 1926, which receives financial assistance from the state. Its task is to increase oil production in Italy, Albania and the colonies, participate in foreign exploitation of oil, and gradually nationalize domestic trade in mineral oils. Despite the efforts of the government, Italy still

imports a large part of the oil it refines or consumes, and oil imports have shown no tendency to decline during the depression years, averaging 7,000,000 tons annually.⁴⁵ Italy has become increasingly dependent for oil imports on neighboring countries, particularly the Soviet Union and Rumania, and has materially curtailed imports from the United States.

Italy's lack of coal is compensated to some extent by its water-power resources. Hydroelectric production has increased from approximately 6 billion kilowatt hours in 1923 to over 11 billion in 1933,⁴⁶ and it is estimated that, under favorable economic conditions, it could be raised to an average of 25 to 30 billion a year.⁴⁷ The depression, however, has checked electric power consumption, which has remained almost stationary since 1929. Further development of hydroelectricity is limited by the cost of exploiting less accessible water-power sites, which may eventually prove higher than that of imported coal. When that point is reached hydroelectric expansion, according to some foreign observers, can be justified only by a desire to make Italy independent of the outside world in case of war.⁴⁸

The Crisis in Export Industries

Italy, however, may be forced to curtail essential imports like coal and oil unless it succeeds in increasing exports. Its principal export industries—silk, rayon and cotton goods—have been hard hit by the depression. In the past Italy had imported silk worms and raw silk from Asiatic countries and exported the finished product to Western markets. Today it sells domestic raw silk and silk manufactures chiefly in Europe, as Japanese competition, aggravated by devaluation of the yen, hampers Italian exports to the United States. Exports of raw silk have declined from 59,700 quintals in 1929 to 34,800 in 1933,⁴⁹ and the price has been reduced by three-fourths during that period. The government came to the aid of the silk industry by offering a subsidy of one lira per kilogram of fresh cocoons in 1932 and 1933. This subsidy was supplanted in March 1934 by a premium of not more than 12 lire per kilogram of silk manufactured from Italian cocoons.^{49a} Experts believe that state assistance will prove permanently valuable only if the government insists on technical improvements in silk-worm cultivation as well

39. *The Economist* (London), August 25, 1934, p. 355.

40. Speech before the National Confederation of Industry, October 15, 1934, *Corriere della Sera*, October 16, 1934.

41. *Annuario Statistico Italiano*, 1934, cited, p. 103.

42. *Bollettino Mensile di Statistica*, cited, October 1934, p. 882.

43. Mortara, *Prospettive Economiche*, 1933, cited, p. 143 et seq.

44. *Annuario Statistico Italiano*, 1934, cited, p. 61.

45. *Ibid.*, p. 103.

46. *Ibid.*, p. 72.

47. Mortara, *Prospettive Economiche*, 1933, cited, p. 202.

48. Mitzakis, *Les Grands Problèmes Italiens*, cited, p. 121.

49. *Annuario Statistico Italiano*, 1934, cited, p. 104.

49a. Edoardo Giretti, "La Tragedia della Seta," *La Riforma Sociale*, November-December 1934, p. 668.

as silk-reeling and weaving, which at present cannot meet Japanese competition on world markets.⁵⁰

The rayon industry has also experienced export difficulties. While rayon fibre production, encouraged by the government,⁵¹ has risen from 32,342,424 kilograms in 1929 to 37,154,400 in 1933,⁵² exports declined during that period. This decline was due largely to the intensified competition of countries with devaluated currencies, notably the United States and Japan; higher tariffs in Italy's former markets, especially Great Britain and the United States; and the growing difficulty of effecting international payments. In the first nine months of 1934, however, exports of rayon reached an all-time high record, rising from 10,961,374 kilograms for the same period in 1933 to 18,175,809 kilograms.⁵³

With the exception of a small quantity of cotton produced in Italy's African colonies, Eritrea and Somaliland, practically all the raw cotton used by Italian industry is imported from abroad, nearly three-quarters being supplied by the United States. While cotton imports declined between 1929 and 1931, they have since shown a gradual increase.^{53a} Italy has benefited by the fact that the price of imported raw cotton has fallen more rapidly and sharply than that of the semi-finished and finished cotton goods it exports. Despite this favorable factor, its exports of cotton piece-goods declined from 592,800 quintals in 1929 to 300,900 in 1933. This decline was due chiefly to Japanese competition in Far Eastern and African markets, and the development of native cotton industries in Asia and the Balkans.⁵⁴ The apprehensions which Italy has recently expressed regarding the growth of Japan's influence in Africa, especially Abyssinia, is directly traceable to Italo-Japanese competition for export markets.

The decline in foreign trade has been reflected by the crisis in Italian shipping. Italy's merchant marine, like that of other countries, went through a period of expansion after the war, partly owing to over-optimistic forecasts of increased traffic, partly to the generous encouragement of the government. Drastic curtailment of freight and passenger traffic during the depression and severe foreign competition favored by currency devaluation have placed shipping in

a critical financial situation, only partly alleviated by consolidation of all Italian lines in 1931 and further government subsidies.^{54a}

LABOR CONDITIONS

The industrial crisis has been accompanied by mounting unemployment, which has steadily risen from 293,000 in 1929 to 1,132,357 at the end of 1933, and has shown only a slight decline in 1934.⁵⁵ It is estimated that, on the average, only 25 to 30 per cent of the unemployed receive unemployment insurance, which takes no account of their dependents.⁵⁶ The Fascist government has adopted devices familiar to other countries in its efforts to cope with unemployment—public works, internal migration and spreading of work. Land reclamation and other public works projects on which 1,160,176,000 lire were expended in 1932-1933 have absorbed but 15 per cent of the unemployed, and their extension can be undertaken only if capital, which Italy lacks, becomes available. The government has also urged spreading of work by reduction of working hours—accompanied by reduction of wages. This principle has been embodied in a convention signed on October 11, 1934 by employers and workers in industry, which provides for an eight-hour day and a forty-hour week, with proportionate reductions in wage rates; prohibits overtime work; sets up a fund for the support of part-time workers with large families, to be constituted by contributions of employers and full-time workers; and provides for gradual discharge of women, as well as men under twenty-one.⁵⁷

If the unemployed are confronted with a critical situation, the workers still employed have also suffered severely from the depres-

54a. Mortara, *Prospettive Economiche*, 1933, cited, p. 507 et seq.

55. *Annuario Statistico Italiano*, 1934, cited, p. 158; League of Nations, *Monthly Bulletin of Statistics*, December 1934, p. 575. Both Italian anti-Fascists and foreign observers have questioned the accuracy and reliability of Fascist unemployment statistics. Cf. Hugh Quigley, Chief Statistical Officer of the Central Electricity Board of Great Britain, "Fascism Fails Italy," *Current History*, June 1934, p. 257; Gaetano Salvemini, "Italian Unemployment Statistics," *Social Research*, August 1934, p. 343.

56. Rosenstock-Franck, *L'Economie Corporative Fasciste en Doctrine et en Fait*, cited, p. 228. Other estimates place the percentage at from 17 to 23. In 1933, when the unemployed totaled 1,018,955, only 215,006 were receiving unemployment insurance in February when unemployment reached its peak for that year. *Bollettino Mensile di Statistica*, cited, December 1934, p. 1048. In discussing unemployment insurance in Italy, it should be pointed out that in 1923 agricultural laborers, artisans, homeworkers and domestic servants, who up to that date had enjoyed insurance rights similar to those of employees in industry and commerce, were excluded from unemployment benefits. To be eligible for a benefit an employee must have paid at least 48 weekly contributions during the two years preceding loss of employment, and must have been unemployed for at least one week. Trades subject to seasonal unemployment are not included in the benefit for the period when seasonal unemployment is liable to occur. The benefit is granted for a maximum of 90 days. Unemployment benefits range from 1.25 to 3.75 lire per day, or from 12 to 36 cents. Salvemini, "Italian Unemployment Statistics," cited.

57. For the text of this convention, cf. *Corriere della Sera*, November 6, 1934. Cf. also *The Economist* (London), November 17, 1934, p. 922.

50. Mortara, *Prospettive Economiche*, 1933, cited, p. 313 et seq.

51. Critics of Fascism contend that the government encourages the rayon industry because it could be transferred to production of chemicals in case of war.

52. *Annuario Statistico Italiano*, 1934, cited, p. 67.

53. *Bollettino Mensile di Statistica*, cited, October 1934, p. 833.

53a. Cf. p. 308.

54. Mortara, *Prospettive Economiche*, 1933, cited, p. 399 et seq.

sion. The revaluation of the lira imposed wage cuts ranging from 10 to 20 per cent in 1927, and the cost of living failed to decline at that time, despite vigorous government measures against "profiteering." The Fascist party had ruled in 1927 that wage reductions could not exceed 20 per cent—a principle which was embodied in a pact between workers and employers of the Fiat automobile works signed in 1928. In March 1928, with prices still rising, Mussolini declared that only a 5 per cent reduction in wages could be permitted, and in June of that year he announced that the cost of living allowed no further cuts, and that wages should be raised as soon as industrial conditions improved, thus leaving the initiative to industry. Mussolini's conception of wage adjustments had already been expressed on August 31, 1924, when he declared: "He who exceeds certain limits must beware; the employers must see that the masses of their subordinates do not live in poor and miserable conditions; that is neither in their interest nor in that of the nation On the other hand, the workers must not make demands on industry which industry cannot bear."

During the depression industry was easily able to demonstrate that it could bear no wage increases, and average hourly earnings actually declined between 1929 and 1933 from 6 per cent for the chemical industry to 18 per cent for textiles and mining.⁵⁸ If the 1927 cuts are taken into consideration, wages appear to have declined from 16 to 38 per cent since 1926. In 1934 the index of nominal wages, with 1929 as base, stood at 83; at the same time the cost of living index, with 1914 as base, which had stood at 530 in 1928, had declined to 344 during the first quarter of 1934 according to Italian figures,⁵⁹ and to 420 according to the figures of the League of Nations.⁶⁰ On the basis of the latter figure it is estimated that the index of real wages, with 1929 as base, had risen from 100 in 1932 to 106 in 1934.⁶¹ Italian industrialists have pointed to this increase, stating that the exigencies of the workers, together with the demands of the consumers, promptly absorb "the temporary margin of profit created by technical progress."⁶² It may be seriously doubted, however, that there has been a noticeable increase in real wages, since even fully employed workers now work shorter hours than in 1932.⁶³

The Work of the Dopolavoro

While the Fascist government has prevented workers' syndicates from waging an open struggle for higher wages, it has encouraged them to improve the social conditions of the working class through the *Opera Nazionale Dopolavoro*, established in 1925. This organization, which numbered 2,108,227 members in 1934,⁶⁴ provides the workers with opportunities to spend their leisure time in various athletic, artistic and cultural pursuits, and furnishes them with medical assistance. It organizes sports events, excursions and camping trips; creates dramatic associations and choral societies, and routes three traveling theatrical companies, as well as a large number of films, through the provinces; establishes public libraries and courses for the illiterate, and provides instruction in various vocations; and concludes agreements with physicians, pharmacists, midwives and sanatoriums, securing reductions of from 20 to 70 per cent for members of the *Dopolavoro*. Membership dues are nominal, and the *Dopolavoro* is open to all workers, whether members of syndicates or not.

The government has also encouraged the activities of the *Opera Nazionale per la Protezione della Maternità e dell' Infanzia*, established in 1925 to assist mothers and infants. This organization, which is subsidized by the government, provides pre-natal and obstetrical care for mothers, medical attention for infants up to three years, babies' milk stations, and infants' asylums. In addition, the government sends children on vacations to summer colonies, and in the winter gives assistance in the form of food, coal, wood, medicines and cash. The Fascist government makes no distinction between legitimate and illegitimate children, and prefers to assist children in their own homes or in those of foster-parents, rather than place them in public institutions.

Critics of Fascism contend that the Fascist government utilizes welfare and cultural organizations for propaganda purposes. They admit, however, that while the individual life of workers has not improved since 1922, collective life, impregnated with a sense of national unity, has received a powerful impetus, and that the young generation has benefited by participation in organized sports, which has assured the physical development of the Italian race.⁶⁵

CONCLUSION

It may be seen from the foregoing analysis that, despite the severity of the economic crisis experienced by Italy, the Fascist gov-

58. League of Nations, *Monthly Bulletin of Statistics*, cited, p. 166.

59. *Bollettino Mensile di Statistica*, cited, August 1934.

60. League of Nations, *Monthly Bulletin of Statistics*, cited, p. 411.

61. *Ibid.*, p. 163.

62. Speech by Dr. Alberto Pirelli, October 15, 1934, cited.

63. Mortara, *Prospettive Economiche*, 1933, cited, p. 591.

64. *Bollettino Mensile di Statistica*, December 1934, p. 1047.

65. Rosenstock-Franck, *L'Economie Corporative Fasciste en Doctrine et en Fait*, cited, p. 233-235.

ernment has not yet resorted to nationalization of industry, agriculture, banking and credit, all of which remain in private hands—but only on condition that they comply with the interests of the nation, as defined by the Fascist party. Nor has the government attempted to formulate a comprehensive program of eventual state control over production and distribution. The Fascists distinguish between capitalism, regarded as a malignant growth on the body of modern society which must be ruthlessly destroyed, and capital, the fruit of individual or family labors, considered “the best and most faithful servitor of the state.”⁶⁶ The private profit system is retained, but must be shorn of the brutal excesses which Fascism associates with untrammelled private competition. The government combats financial speculation, assumes supervision over industrial investments, and controls the establishment of new plants and the expansion of old ones. At the same time it encourages private initiative and safeguards the accumulation of private capital, regarded as essential to the development of economic life in a country like Italy, which lacks both capital and raw materials. This policy toward capital does not preclude expropriation by the state in case of war or other national emergency.⁶⁷

While the low water-mark of the crisis was apparently reached by Italy in 1932, its economic situation, like that of other countries which have retained the gold standard, has shown no striking improvement during the past two years. The policy of drastic deflation followed by the Fascist government has caused a continuing decline in wholesale prices and successive reductions in wages,

without achieving a corresponding decrease in the cost of living. The government's determination to maintain the gold standard has also made it increasingly difficult for Italy's principal export industries—silk, rayon, cotton goods—to compete with those of countries which have devaluated their currencies, notably Great Britain and Japan. The sharp decline in exports has not only forced curtailment of all imports except a few indispensable raw materials, but has in turn threatened the stability of the lira. Some foreign observers believe that the gold countries, including Italy, cannot continue deflation without provoking “the most dangerous kind of social and political reaction.”⁶⁸ Such reaction is also prophesied for Italy by anti-Fascists who contend that the Italian crisis is due in large part to the government's “suicidal” economic policies. They argue that the Fascist leaders are interested less in improving the lot of the Italian people than in preparing Italy for war by fostering the growth of the population and artificially stimulating the production of wheat, hydroelectricity, rayon and other products, which would decrease Italy's dependence on the outside world. It must be recognized, however, that no government, whatever its political complexion, could escape from Italy's fundamental dilemma—the disproportion which at present exists between the country's limited resources and the needs and aspirations of a prolific race. This disproportion might be gradually reduced by the resumption of international trade and simultaneous abandonment by Italy of its efforts to achieve self-sufficiency. Should international stabilization fail to materialize, Italy under Fascism might come to regard territorial expansion as the only escape from its economic problems.

66. M. Mazzuchelli, “Considerazioni sul Conto del Tesoro e sul Bilancio,” *Rivista Bancaria*, December 15, 1934, p. 966.

67. “Nazione Guerriera e Stato Corporativo,” *Corriere della Sera*, December 14, 1934.

68. Sir Henry Strakosch, “The Road to Recovery,” Supplement to *The Economist* (London), January 5, 1935.

APPENDIX COMPOSITION OF FASCIST SYNDICATES, 1933*

	Employers		Workers	
	Enrolled	Represented	Enrolled	Represented
National Fascist Confederation of Industry	69,343	119,849	1,813,463	2,194,961
National Fascist Confederation of Agriculture	662,692	2,742,764	1,926,931	2,815,778
National Fascist Confederation of Commerce	385,483	722,969	368,175	565,502
National Fascist Confederation of Credit and Insurance	5,542	11,436	34,791	48,593
National Fascist Confederation of Professional Men and Artists	105,484	159,442
Autonomous Fascist Federation of Craftsmen	172,819	520,766
TOTALS	1,295,879	4,117,784	4,248,844	5,784,276

**Annuario Statistico Italiano*, 1934, cited, p. 151. To avoid confusion, the national confederations of employers and workers in maritime and aerial transportation, and land transportation and inland navigation, which were abolished in 1934, have been omitted from this table.